

Message Text

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FM AMEMBASSY LAGOS

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E.O. 11652: N/A

TAGS: EFIN, NI

SUBJECT: COMMENTS ON FMG FISCAL 1976/77 BUDGET

REF: LAGOS 3961, LAGOS 4158

1. HEAD OF STATE OBASANJO AND FINANCE COMMISSIONER EKUKINAM'S BUDGET SPEECHES ANNOUNCED POLICY OF RETRENCHMENT FOR NIGERIA'S ECONOMY. MAIN GOALS ARE TO REDUCE CURRENT RATE OF INFLATION, WHICH RAN OVER 40 PERCENT IN 1975, AND REDIRECT FINITE NATIONAL RESOURCES TO KEY SECTORS OF ECONOMY, NOTABLY AGRICULTURE. THE BUDGET, AS GIVEN IS OPEN TO CRITICISM. SOME AREAS OF BUDGETARY MESSAGE, E.G., REDIRECTION OF DEVELOPMENT PRIORITIES, ARE VAGUE. IN ADDITION, MANY OF ITS DIRECTIVES ARE INFLATIONARY; OTHER WIDELY EXPECTED ANTI-INFLATION MEASURES ARE ABSENT. SOME OF THESE INCONSISTENCIES WITH THE BUDGET'S ANTI-INFLATION THEME CAN BE EXPLAINED BY REASON OF POLITICAL COMPROMISE. HOWEVER, VAGUENESS AND INCONSISTENCIES MAY BE DUE IN PART TO APPARENT HASTY DRAFTING OF BUDGET. THE TRAUMATIZING EFFECT OF THE ATTEMPTED COUP, THE CHANGEOVER FROM A SPENDTHRIFT TO A MORE COST CONSCIOUS MENTALITY, AND THE NIGERIAN TALENT FOR LIMITED OFFICIAL USE

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PROCRASTINATION ALL CONTRIBUTED TO AN UNFINISHED PRODUCT. DESPITE

THIS, EMBASSY BELIEVES BUDGET IN THEORY IS A STEP IN RIGHT DIRECTION TO HELP DEAL WITH INFLATION HERE AND REDIRECT NIGERIA'S DEVELOPMENT EFFORTS. WHETHER OR NOT FMG WILL BE ABLE TO IMPLEMENT IT FULLY IS DOUBTFUL.

2. INFLATION

EMBASSY UNABLE TO ASSESS IMPACT OF MANY ANTI-INFLATIONARY MEASURES INCLUDING NEW BANKING REGULATIONS, TIGHT FOREIGN EXCHANGE BUDGET, AND PLANNED TRIMMING FEDERAL RECURRENT AND CAPITAL EXPENDITURE BUDGETS UNTIL POLICY GENERALITIES IMPLEMENTED BY SPECIFIC DIRECTIVES. HOWEVER, EVEN IF SUCCESSFUL, THEIR IMPACT LIKELY TO BE DILUTED BY INFLATION-CAUSING PROBLEMS IN THE NIGERIAN ECONOMY.

A FEW EXAMPLES:

- 1) THERE DOES NOT APPEAR TO BE ADEQUATE MACHINERY TO PREVENT HOARDING/PRICE GOUGING WHICH WILL PROBABLY RESULT FROM THE SIX-MONTH IMPORT BAN.
- 2) ALTHOUGH DUTIES ON CERTAIN KEY COMMODITIES HAVE BEEN REDUCED OR ELIMINATED, THERE ARE NO PROVISIONS AGAINST MIDDLEMEN ABSORBING THE SAVINGS AS INCREASED PROFITS INSTEAD OF PASSING IT ON TO CONSUMERS.
- 3) ALTHOUGH FMG HAS PROMISED TO MAKE MORE REASONABLY PRICED HOUSING AVAILABLE TO GENERAL PUBLIC, ONLY EFFORT MADE TO HOLD DOWN PROFITEERING FROM SPECULATION IN REAL ESTATE IS PLEDGE TO TIGHTEN CAPITAL GAINS TAX COLLECTION.

3. THIRD NATIONAL DEVELOPMENT PLAN

FMG DID NOT SPECIFY WHICH MAJOR PROJECTS WILL BE CUT BACK/ CANCELLED AND MAY NOT DO SSO PUBLICLY TO AVOID POLITICAL BACKLASH. AS MAJOR WHITE ELEPHANTS, E.G., NEW PARAGE GROUND, TOO FAR ADVANCED TO BE STOPPED, FMG MAY HAVE TO CUT INTO MEAT OF DEVELOPMENT PLAN TO STAY WITHIN NAIRA 5.5 BILLION FEDERAL BUDGET. DECISION TO INCREASE NUMBER OF HOUSING UNITS TO BE CONSTRUCTED UNDER DEVELOPMENT PLAN FROM 60,000 TO 200,000 OBVIOUSLY POPULAR MOVE. HOWEVER DOUBTFUL FMG CAN MAKE GOOD ON PROMISE. CONSTRUCTION OF INITIAL 20,000 UNIT TRANCHE OF ORIGINAL 60,000 UNIT PROPOSAL IS FAR BEHIND SCHEDULE DUE TO POOR PLANNING AND IMPLEMENTATION. SIMILARLY, INADEQUATE EXECUTIVE CAPABILITY PROBABLY WILL RESULT IN ONLY PARTIAL ACHIEVEMENT IN HEALTH AND AGRICULTURAL SECTORS UNLESS FMG TAKES NEW APPROACH. REALIZATION OF THESE GOLAS SEEMS IMPOSSIBLE WITHOUT MODIFICATION OF THE MANY REQUIREMENTS/ LIMITED OFFICIAL USE

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RESTRICTIONS PLACED ON FOREIGN CONTRACTORS.

4. FOREIGN PARTICIPATION IN NIGERIAN ECONOMY

FOREIGN BUSINESSMEN'S FEARS THAT OBASANJO'S BUDGET SPEECH WOULD CONTAIN SEVERE RESTRICTIONS ON NEW AND EXISTING FOREIGN COMMERCIAL ACTIVITIES HERE WERE NOT FULFILLED. ALTHOUGH FURTHER INDIGENIZATION OF FOREIGN-OWNED LOCAL FIRMS IN SOME SECTORS IS LIKELY, EMBASSY BELIEVES FMG WILL

CONTINUE TO RECOGNIZE LONG TERM NEED FOR FOREIGN EXPERTISE IN NIGERIAN ECONOMY, AND WILL CONTINUE TO OFFER WHAT FMG CONSIDERS ADEQUATE INCENTIVES TO FOREIGN COMPANIES FULFILLING NIGERIA'S PERCEIVED NEEDS.

5. BANKING

FMG WILL ATTEMPT REDUCE GROWTH OF MONEY SUPPLY THROUGH REGULATION OF BANKING SECTOR. ALTHOUGH FEDERAL COMMISSIONER FOR FINANCE HAS INTRODUCED SEVERAL POLICY INSTRUMENTS (SEE PARA 4, REFTEL B), DIFFICULT TO ASSESS IMPACT UNTIL THEY ARE SPELLED OUT MORE CLEARLY. HOWEVER, IT IS CLEAR THAT THE MERCHANT BANKS WERE HARDEST HIT BY THE NEW REGULATIONS. THE SEVEN MERCHANT BANKS (CITIBANK, CHASE MANHATTAN, BANKERS TRUST, FIRST NATIONAL OF CHICAGO, MORGAN GUARANTEE PLUS TWO NON-AMERICAN BANKS) HOWLED PREDICTABLY. THEY CLAIMED THAT FMG ACTION WAS INSTIGATED BY COMMERCIAL BANK COMPETITORS, THAT THE MERCHANT BANKS HAD BEEN OPERATING WITH THE DE FACTO APPROVAL OF THE CENTRAL BANK, AND THAT THE MERCHANT BANKS WOULD BE UNABLE TO REMAIN IN LAGOS IF THE NEW REGULATIONS REMAINED IN EFFECT. ALTHOUGH MUCH OF THE MERCHANT BANKERS' BUSINESS AND PROFITS HAS BEEN GENERATED BY THEIR COMMERCIAL BANK TYPE ACTIVITIES, ESPECIALLY THEIR EXCHANGE AND LETTERS OF CREDIT ACTIVITY, THE FMG IS CORRECT IN CHARGING THE MERCHANT BANKS WITH EXCEEDING THEIR CHARTERS. A COMPROMISE SETTLEMENT IS POSSIBLE. EVEN WITH A CUTBACK IN THEIR ACTIVITIES, EMBASSY DOUBTS MERCHANT BANKS WILL QUIT LAGOS AND LOSE POSITION IN A LONG-TERM, HIGH-GROWTH ECONOMY.

6. TRANSPORTATION BOTTLENECKS

ALTHOUGH INSUFFICIENT TRANSPORTATION, PORT CONGESTION ET AL WERE IDENTIFIED AS SIGNIFICANT INFLATIONARY FACTORS, THE BUDGET PROPOSED LITTLE IN WAY OF SOLUTION. THE SIX-MONTH BAN ON CERTAIN IMPORTED GOODS WILL ONLY HAVE A MINOR IMPACT ON PORT CONGESTION. REDUCTION/ABOLITION OF DUTIES ON CERTAIN TYPES OF VEHICLES LIMITED OFFICIAL USE

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ESPECIALLY FOR THE AGRICULTURAL SECTOR MAY IMPROVE DISTRIBUTION, BUT IT WILL ALSO FURTHER CLOG THE ROADS.

7. FOREIGN AID

RELATIVELY LOW AMOUNT OF BUDGETING CAPITAL TRANSFERS NAIRA 140,000,000 (INCLUDING IMG TRANSFERS) SUGGESTS THAT NIGERIA'S ATTENTION IS STILL FOCUSED PRIMARILY ON INTERNAL DEVELOPMENT. MATERIAL ASSISTANCE FOR REGIONAL/CONTINENTAL DEVELOPMENT WILL REMAIN MODEST.

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